

August 13, 2003

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TO: Local Agency Formation Commission





FROM: MSR Oversight Committee – *Commissioners Peter Herzog, Charley Wilson, Susan Wilson, and John Withers*
Executive Officer
Project Manager

SUBJECT: Consultant Report – Phase One Stakeholder Interviews

INTRODUCTION

Throughout the year, the Municipal Service Review (“MSR”) Oversight Committee has worked closely with staff and a team of professional consultants to prepare for the formal launch and implementation of LAFCO’s MSR Program. To assist in the design and implementation of the program and develop an approach and process for the MSRs, LAFCO’s MSR consulting team conducted a series of countywide interviews with more than 30 key stakeholders in Orange County and gathered insights and perspectives on what stakeholders believe to be the critical service and infrastructure challenges for Orange County over the next 15 to 20 years of growth and change. Following completion of the interviews, the consultants prepared a report on the key interview findings, analyses of those findings, and conclusions on an approach and process for the MSRs.

The attached consultant report provides:

-  An ***Executive Summary*** highlighting the key conclusions drawn from the interviews.
-  A ***Background*** discussion describing the interview process.
-  An overview of the ***Key Findings*** and themes found within the interview responses, including what stakeholders identified as Orange County’s key growth concerns and what key roles LAFCO and the MSRs can play to address those concerns.
-  An ***Analysis of Key Findings*** that describes key elements and future governance tools and opportunities the Commission should consider incorporating into the MSR process.

Based on the consultant report and the interview responses, the following staff report provides a background overview of the MSR Program, a synopsis of the Phase One Consultant Report, conclusions on an approach and process for the MSRs, and staff recommendations for the following Commission actions:

Authorize staff to begin Phase Two and launch the MSR Prototypes:

1. Rossmoor / Los Alamitos / Seal Beach / Sunset Beach
2. City of Orange / East Orange / Orange Sphere of Influence

Direct staff to continue working with the MSR Oversight Committee to:

1. Develop criteria for establishing geographic “focus areas” by which all MSRs will be conducted in Phase Four
2. Assemble a prioritized five- to seven-year schedule for conducting:
 - a. *Vertical MSRs* for individual “focus areas”
 - b. *Horizontal MSRs* on a countywide and regional basis for specific service and infrastructure challenges that regionally span across jurisdictional boundaries

BACKGROUND

At the Commission’s January 31, 2003 Annual Strategic Planning Session, the Commission received a presentation from staff and consultants on a proposed strategic and programmatic approach to conducting municipal service reviews (“MSRs”) in Orange County. That approach consisted of a phased MSR Program developed upon three Guiding Principles:

- ☞ MSRs should be **future-oriented** studies that address future growth and municipal service and infrastructure needs and opportunities over the next 15 to 20 years.
- ☞ MSRs should be **valuable to the stakeholders and the public as the ultimate end-users** of the studies.
- ☞ MSRs should be conducted through an **open and inclusive process**.

The phased program involves: process design, prototype implementation, process evaluation, and full implementation of the MSRs countywide and by “focus areas.” The phases of the MSR Program are described below.

Phase One: Stakeholder Interviews

PROCESS DESIGN

34 countywide interviews were held by LAFCO’s consultants with key stakeholders selected from a broad cross-section of public and private organizations and backgrounds by the MSR Oversight Committee. The purpose of the interviews was to gather direct input, perspectives, and opinions from Orange County’s stakeholders on the key service, governance, and

infrastructure challenges Orange County's public agencies and citizenry will face over the next 15 to 20 years of population growth and demographic change. The interviews were designed to help LAFCO focus the MSRs on the key issues and challenges that matter most to the stakeholders who will ultimately be the end users of the MSRs.

Phase Two: MSR Prototypes

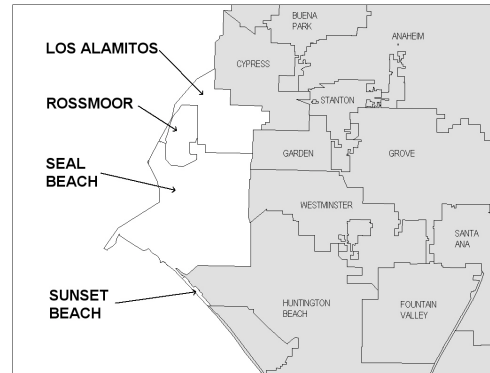
PROTOTYPE IMPLEMENTATION

LAFCO will initially launch and implement the MSRs through two "prototypes." The prototypes are located in two characteristically different geographic "focus areas" in the County. The studies will seek to address service and infrastructure issues that differently impact both the older "urban core" and newer "urban fringe" areas of the County. The MSR prototypes are:

Rossmoor / Los Alamitos / Seal Beach / Sunset Beach

This focus area is generally characteristic of Orange County's older "urban core" areas with more established neighborhoods built before 1970. An MSR in this "focus area" will seek to address service, infrastructure, and governance challenges such as:

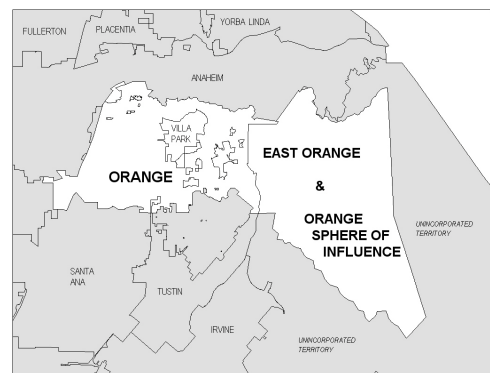
- ▶ Aging infrastructure (water, sewer, roads, etc.)
- ▶ Financing constraints and opportunities to sustain urban levels of service and quality of life
- ▶ New and existing opportunities for inter-agency collaboration, cost-sharing, cooperative agreements, etc.
- ▶ Governance options and communities of interest




Orange / East Orange / Orange Sphere of Influence

This focus area is characteristic both of Orange County's older "urban core" areas and the newer "urban fringe" areas of the County where new and existing development potential exist. An MSR in this "focus area" will seek to address service, infrastructure, and governance challenges such as:

- ▶ Public services and facilities required to serve the future needs of future residents
- ▶ Structural relationships of overlapping service agencies and providers in newly developing territories



Based on the needs and opportunities identified in the “focus areas,” each of the MSR prototypes will result in the following items required by state law:

 **Nine determinations** about present and future opportunities, constraints, and needs:

1. Infrastructure needs or deficiencies
2. Growth and population projections for the affected area
3. Financing constraints and opportunities
4. Cost avoidance opportunities
5. Opportunities for rate restructuring
6. Opportunities for shared facilities
7. Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers
8. Evaluation of management efficiencies
9. Local accountability and governance

 **Sphere of influence updates** for all cities and special districts.

In addition to the mandatory outputs outlined above, LAFCO and stakeholders in the prototype “focus areas” will emerge from the MSR process with recommended actions as next steps for stakeholders to begin planning for the areas’ service, infrastructure, and governance challenges.

Phase Three: Prototype Evaluation

PROCESS EVALUATION

Upon completion of the MSR prototypes, LAFCO will revisit the MSR Guiding Principles and evaluate the success of the MSR prototypes in light of those principles: Was it future-oriented? Was it valuable to the stakeholders as the end users? Was it an open and inclusive process?

The MSR approach and process will be revisited and fine-tuned based on the successes and shortcomings of the prototypes.

Phase Four: MSR Implementation

PROCESS IMPLEMENTATION

In Phase Four, LAFCO will launch full implementation of the MSRs based on a prioritized five- to seven-year schedule. The MSRs will be conducted through an approach and process as described in later sections of this report.

SYNOPSIS: PHASE ONE CONSULTANT REPORT

The Phase One Consultant Report was prepared by a team of professional consultants from two firms – Moore Iacofano Goltsman, Inc. (“MIG”) and The Keith Companies (“TKC”) – contracted by LAFCO earlier this year to conduct countywide stakeholder interviews for Phase One of the MSR Program. The report highlights the common themes and trends in the interview responses and draws key findings and conclusions relevant to the MSRs, including what stakeholders believe to be:

- ▶ Six key regional service and infrastructure concerns for Orange County
- ▶ Three key roles LAFCO and the MSRs can play in helping address those key regional service and infrastructure concerns
- ▶ Five key elements of the MSR process
- ▶ Governance tools and structural opportunities available to help agencies and the public plan for future growth, change, and stresses and strains on services and utilities

The following synopsis is intended to engage the Commission in a high-level and provocative discussion about possible new roles for the Commission, and also a more practical discussion about approaches, processes, and procedural elements of the MSRs.

A Call for Leadership

A SHIFT FOR THE COMMISSION?

Of the various questions stakeholders were asked during the interview process, the most important and valuable were those that generated thoughtful responses and engaging discussions about **leadership** in Orange County. More specifically, stakeholders consistently expressed their growing frustration with the absence of a countywide vision for Orange County and the lack of initiative by our agency leaders to create and spur on such a vision.

Stakeholders did identify, however, several examples of successful interagency and multidisciplinary programs that have helped establish a framework for a unified vision and leadership in some specific areas of regional and municipal services. Examples included inter-jurisdictional programs like the Orange County Transportation Authority’s Orange County Taxi Administration Program (OCTAP), joint powers authorities like the Orange County Fire Authority (OCFA), and public-private efforts like the Orange County Business Council (OCBC) and the Orange County Health Needs Assessment (OCHNA). These initiatives are specific, however, to particular service areas (e.g., transportation, fire, business, public health) and do not provide a countywide forum where Orange County’s public and private organizations can collectively ask themselves: What is our countywide vision for Orange County? What values do we want Orange County to stand for 20 years from now? What kind of countywide “sense of community” and “quality of life” do we want to foster in Orange County? How do we want to see Orange County grow and change over the next 20 years?

Several stakeholders did identify, however, the Orange County Leadership Symposium (OCLS) as a good example of a countywide initiative to bring Orange County's regional governmental bodies together to provide electeds the opportunity to begin the discussion of high-level visioning and leadership challenges. Many stakeholders believe that because of LAFCO's composition (County, city, special district, public) and broad legislative charge and authority to address growth, the Commission is in a very unique position to take on a greater leadership role in raising the sensitive interregional and inter-jurisdictional issues that are often too politically charged for the cities, County, or special districts to raise themselves, individually or collectively. In fact, the respondents noted that the individual Commissioners themselves may be in a very unique position to more actively communicate and facilitate direct dialogue between their respective constituents (special districts, cities, County, and the public) on issues those constituents are wrestling with. And LAFCO may be a good medium to raise those issues in a countywide, public forum to explore collaborative and innovative interagency solutions through studies and tools like the MSRs. Some specific examples of issues raised by stakeholders during the process are described in the following section.

Key Stakeholder Concerns

NEW TERRAIN FOR LAFCO?

The Consultant Report identifies six areas of stakeholder concerns where opportunities for leadership within the Commission and the MSRs may exist. The Commission has not historically or traditionally taken an active position or role in these issue areas because they generally stray outside the immediate scope of LAFCO's normal areas of business (e.g., annexations, incorporations, reorganizations, spheres of influence, etc.). LAFCO's broad legislative mission and charge, however, give the Commission the flexibility to chart a course over new terrain. Stakeholder concerns, in no specific order of importance, are:

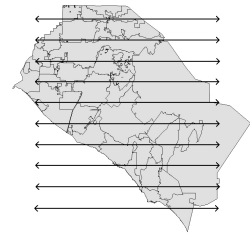
1. The County needs a countywide vision and leadership committed to achieving that vision.
2. Urban water runoff represents a new type of challenge with a complexity and scope that exceeds the capacity of individual cities, special districts, and regulatory agencies working on their own.
3. Future water supplies and wastewater capacity may not be sufficient to meet the current population projections for Orange County.
4. Aging water and wastewater infrastructure systems and facilities.
5. Ability to maintain and provide uniform access to open space and recreational facilities is a growing problem.
6. Imbalance between affordable housing supply and available jobs continues to exacerbate inter-county congestion and threaten Orange County's long-term economic competitiveness.

To summarize, opportunities exist to address regional issues such as urban runoff, water supplies, interregional wastewater coordination, open space and recreation, jobs-housing, and transportation.

Horizontal MSRs

Based on the service, governance, and infrastructure concerns raised by the stakeholders during the interviews, the Consultant Report suggests two concurrent approaches to the MSRs. The first is to conduct MSRs countywide or regionally for municipal services and issues that **horizontally** and significantly span across multiple jurisdictions and regions. These “horizontal” MSRs would provide the vehicle for the Commission to address countywide and regional issues that have and have not traditionally been the focus of past LAFCO activities and policies.

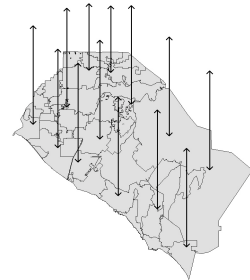
Horizontal MSRs could include a countywide MSR on water supplies, a countywide MSR on housing as it relates to infrastructure and other service demands, and regional MSRs by watersheds on wastewater and urban runoff. Such countywide and regional MSRs could run simultaneous with the narrower MSRs conducted by “focus areas.”



Vertical MSRs

The MSR law requires LAFCO to update spheres of influence for **all** local agencies in the County, including the 34 cities and 26 independent special districts in Orange County. That equals 60 spheres of influence. To accomplish this overwhelmingly large task in a manageable and effective manner, the Consultant Report suggests conducting MSRs for the entire County by “focus areas.” The MSRs would be designed to address service and infrastructure challenges that are **vertically** characteristic to specific “focus areas” in the County. The first two “focus areas” for these

“vertical” MSRs would be the upcoming prototypes in Phase Two of the Program: (a) *Rossmoor / Los Alamitos / Seal Beach / Sunset Beach*, and (b) *City of Orange / East Orange / Orange Sphere of Influence*.



Staff concurs with the consultants’ suggested approach of concurrently conducting “horizontal” MSRs for specific countywide and regional municipal services and issue areas, and “vertical” MSRs for individual “focus areas” that would provide for updates to all 60 spheres of influence.

Key Elements of the MSR Process

The fundamental root of the MSRs is found in population growth and demographic change. How communities grow, develop, and demographically change over the years determines what types of stresses, strains, and needs those communities will place on the services and infrastructure that are or will be available to them. Once that information is known, the MSRs can then be used to lead and facilitate collaborative discussions among stakeholders to identify what governance tools and structural opportunities are available to plan for and address the future stresses, strains, and needs that will be placed on services and infrastructure. The MSRs can be used as an inter-jurisdictional forum for exploring, weighing, and selecting the governance options that best achieve the goals, visions, and values of the communities. LAFCO’s nine determinations, sphere of influence updates, and recommended actions to the

stakeholder agencies will serve as the vehicle for those options. To recap, the Consultant Report identified the following as the five key elements of the MSR process.

Five Key Elements of MSRs

1. Future growth and population projections in the “focus area” over the next 20 years. Population projections are the essential foundation for beginning to understand and plan for how communities will develop and adapt to future growth (e.g., increased densities from infill, new development potential, expand infrastructure capacities, etc.).

2. Demographic changes in “focus areas” influence how future needs for services and infrastructure will change. Understanding how communities demographically change helps plan for the future needs of future residents accordingly. For example, a community with an aging population will place greater demands on resources geared toward social services. A community with younger age groups and new and emerging families will place greater demands on schools, transportation, and new housing.

3. Stresses and strains put on utility and city services will be unique for each “focus area.” Population and demographic projections will vary from “focus area” to “focus area.” The MSRs should therefore be flexible enough to determine, understand, and plan for the stresses and strains of each “focus area” based on that area’s particular demographic outlook.

The MSRs should pay particular attention to the stresses and strains that are, and will continue to be, placed on already aging infrastructure. Stakeholders believe infrastructure issues will be particularly challenging in the newer communities in southern Orange County where the infrastructure will age altogether at once. The MSRs should also examine the stresses and strains population growth will place on the local and regional transportation systems.

4. Opportunities to address common infrastructure, economic, housing, and other issues specific to a “focus area.” LAFCO should facilitate a cooperative discussion among leaders and stakeholder groups in each “focus area” to identify new governance tools and structural opportunities to collaboratively address the future service needs and infrastructure strains that future growth will create in the “focus areas.”

5. Make nine required determinations and update spheres of influence for each “focus area.” For each “focus area,” LAFCO is required to make nine determinations and update every agency’s sphere of influence. The determinations and sphere updates should reflect determinations and conclusions made on population projections, demographic changes, stresses and strains on infrastructure and services, and opportunities for cooperative solutions within the “focus areas.”

Within each of the above elements, the MSRs should always fall back on the Commission's Guiding Principles:

- ☞ MSRs should be **future-oriented** studies that address future growth and municipal service and infrastructure needs and opportunities over the next 15 to 20 years.
- ☞ MSRs should be **valuable to the stakeholders and the public as the ultimate end-users** of the studies.
- ☞ MSRs should be conducted through an **open and inclusive process**.

RECOMMENDATIONS

Staff is recommending that the Commission proceed with Phase Two of the MSR Program and begin conducting MSRs for the two prototype "focus areas." To prepare for full implementation of all other "horizontal" and "vertical" MSRs in Phase Four, staff is seeking direction from the Commission to continue working with the MSR Oversight Committee to develop criteria for establishing all other "focus areas" and assemble a schedule for carrying out MSRs in Phase Four.

To summarize, staff recommends that the Commission:

1. Receive and file the July 29, 2003 MSR Phase One Consultant Report prepared by MIG and TKC.
2. Authorize staff to begin Phase Two and launch the MSR Prototypes:
 - a. Rossmoor / Los Alamitos / Seal Beach / Sunset Beach
 - b. City of Orange / East Orange / Orange Sphere of Influence (and incidental edge areas)
3. Direct staff to continue working with the MSR Oversight Committee to:
 - a. Develop criteria for establishing geographic "focus areas" by which all MSRs will be conducted in Phase Four
 - b. Assemble a prioritized five- to seven-year schedule for conducting:
 - i. *Vertical MSRs* for individual "focus areas"
 - ii. *Horizontal MSRs* on a countywide and regional basis for specific service and infrastructure challenges that regionally span across jurisdictional boundaries

Respectfully submitted,

EXECUTIVE OFFICER

PROJECT MANAGER

Attachment:

1. MSR Phase One Consultant Report